

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

ORDER OF INTEGRATION

Re: Application of Countrymark Energy Resources, LLC) Case No.: DOG-3-2010
For the integration of oil and gas interests owned by Gary)
Williams and Elizabeth Williams, husband and wife, and)
Ralph J. Wheeler and Joann T. Wheeler, husband and)
wife, in the MUEHLENBEIN-MIDWAY UNIT located in
the West Half of the Northwest Quarter of Section 27,
Township 6 South, Range 12 West, Posey County,
Indiana

As provided in Indiana Code 14-37-3-16, an informal hearing was held in this matter on August 10, 2010, beginning at 10:00 AM (Central) before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at the Angel Mounds Historic Site Office of the Department of Natural Resources located at 8215 Pollack Avenue, in Evansville, IN 47715. The purpose of the informal hearing was to consider the Petition for Integration of Interests (Application) for the above drilling unit filed by Countrymark Energy Resources, LLC, hereinafter referred to as "Applicant".

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division of Oil and Gas (Director) makes the following Findings of Fact, Conclusions of Law and Order of Integration:

FINDINGS OF FACT

1. Applicant is a corporation whose principal place of business is 25 N.W. Riverside Drive, Suite 100, Evansville, IN 47708. Applicant is authorized to transact business in the State of Indiana and its registered agent is CT Corporation, 208 South LaSalle Street, Suite 814, Chicago, IL 60604.
2. Applicant has applied for a permit to drill a horizontal well and to establish the MUEHLENBEIN-MIDWAY UNIT, hereinafter referred to as "UNIT", containing 80 acres (more or less) in the West Half of the Northwest Quarter of Section 27, Township 6 South, Range 12 West. The application has been assigned Permit No. 54151 and is currently pending approval awaiting the outcome of this proceeding.
3. Depending on the actual orientation of the horizontal drainhole to be drilled under Permit No. 54141, the configuration of the proposed 80 acre UNIT is consistent with the drilling unit requirements of 312 IAC 16-5-2 and the Non-Rule Policy Document #58 adopted by the Natural Resources Commission with respect to drilling unit and well spacing requirements for horizontal wells.
4. Gary Williams and Elizabeth Williams, husband and wife, own property identified as Lot Number 2 in Section B, in Midway Acres Subdivision, designated as "Tract A" in Applicants petition for integration of interests. Said property is located within the proposed UNIT and consists of 0.83 acres, more or less.

5. Ralph J. Wheeler and Joann T. Wheeler, husband and wife, own property identified as Lot Number 6 in Section B, in Midway Acres Subdivision, designated as "Tract B" in Applicants petition for integration of interests. Said property is located within the proposed UNIT and consists of 0.71 acres, more or less.
6. Based upon information provided by the Applicant, oil and gas leases have been executed and acknowledged or ratified on the remaining 78.46 acres within the proposed drilling unit.
7. Despite due diligence and good faith efforts, the Applicant was not able to obtain consent for the proposed lease of oil and gas rights from Gary Williams and Elizabeth Williams, nor from Ralph J. Wheeler and Joanne T. Wheeler. Exhibit C to the Application was submitted by the Applicant via email on June 29, 2010, which includes a summary of meeting dates, conversations and discussions with these parties regarding the potential leasing of their land.
8. IC 14-37-9-1(b) requires that, where owners of separate tracts within an established drilling unit do not agree to integrate their interests, the IDNR shall require the owners to integrate their interests in order to prevent waste or the drilling of unnecessary wells.
9. The Application filed in this matter by the Applicant seeks, pursuant to IC 14-37-9, the issuance of an integration order whereby the interests of all owners of separate tracts within an established drilling unit are integrated and the combined tracts developed as a consolidated production unit.
10. The Applicant attached the following documents to its Application:

Exhibit A	Description of All Tracts
Exhibit B	Map of Proposed MUEHLENBEIN-MIDWAY UNIT
11. IC 14-37-9-2 requires an integration order to be based upon reasonable terms that give the owner of each tract an equitable share of the oil and natural gas in the UNIT.
12. The proposed horizontal well to be drilled on the UNIT is likely to result in the drainage of oil from beneath the currently unleased properties of Gary and Elizabeth Williams and of Ralph and Joann Wheeler regardless of the exact trajectory of the horizontal drainhole completed in the Cypress sandstone. These property owners are entitled to receive an equitable share of the oil and natural gas produced from the UNIT.
13. On July 2, 2010, notice of the date, time, and place of the informal hearing to be held in Evansville, IN on Tuesday, August 10, 2010, was mailed by first class mail to Gary and Elizabeth Williams and to Ralph and Joann Wheeler informing them of their right to attend the informal hearing, or to submit written comments or objections to the Division by mail, fax, or email.
14. Applicant Countrymark also identified in its Application certain mortgagee interests on other properties within the proposed UNIT. Said mortgagee security interests were reported to have been established prior to the time that oil and gas leases had been acquired by Applicant or its predecessors in interest. Applicant requested that said mortgage interest owners be provided notification of the date, time, and place of the informal hearing, and that these interests be included in the final order under IC 14-37-9-2.
15. On July 2, 2010, notice of the date, time, and place of the informal hearing to be held in Evansville, IN on Tuesday, August 10, 2010, was mailed by first class mail to those owners of mortgagee interests identified by Applicant and for which a pre-addressed, postage-paid envelope was provided. The notice to mortgage interest holders specifically asked for information as to whether these interests were considered to constitute "an ownership interest in the oil and gas on those properties" and requested an explanation of the basis for such a

claim in light of IC 32-23-7-4(c).

16. The following persons were present at the informal hearing held in Evansville on August 10, 2010:

<u>Person</u>	<u>Representing</u>
Mike Gibbons	Countrymark Energy Resources, LLC
Jason Smith	Countrymark Energy Resources, LLC
Jacob Hancock	Countrymark Energy Resources, LLC
Kathy Lloyd	Countrymark Energy Resources, LLC
Scott Gaddis	Countrymark Energy Resources, LLC
Frank Lindsey	Countrymark Energy Resources, LLC
Gary Williams	Self
Ed Smith	Unspecified
Vern Partenheimer	Hall, Partenheimer & Kinkle, Attorney representing Countrymark Energy Resources, LLC
Christine St. John	Hall, Partenheimer & Kinkle

At the informal hearing Gary Williams expressed concerns with the following issues:

- a) Hydrofracturing of the well could cause environmental damage;
- b) Drilling of the well could cause potential contamination to groundwater; and
- c) The drilling of the well would constitute "waste" on the basis that oil may not actually be present in commercial quantities within the proposed area.

17. In response to the above concerns, representatives of Applicant Countrymark indicated that:

- a) They did not intend to hydrofracture or fracture-stimulate the well.
- b) The casing and cementing requirements under the Indiana Oil and Gas Act are designed to protect groundwater from contamination which could arise from the drilling or operation of the well. Furthermore, Countrymark indicated their willingness to include a provision in a lease with Gary and Elizabeth Williams whereby they would agree to supply drinking water until a suitable replacement supply were provided in the event Countrymark's operations were found to cause contamination of groundwater.
- c) Core Minerals, a predecessor in interest to the Applicant, had successfully drilled three horizontal wells just west of the proposed UNIT (which are now operated by Countrymark) and Countrymark believes this project will have similar results.

18. At the conclusion of the informal hearing, additional time was afforded to Gary Williams to allow for submittal of any additional information to support his assertion that the drilling of a horizontal oil well in the vicinity of his property would constitute "waste" as that term is used under the Oil and Gas Act.

19. On September 9, 2010, Gary Williams submitted comments via email which provided no additional information to support an assertion that the drilling of the well would constitute

“waste”. Mr. Williams’ comments indicated his unwillingness to “accept the terms of a forced pooling based on the proposed entry upon our property”. Mr. Williams further indicated that “we do not grant permission to use our property and any act will be deemed trespassing, upon which we will prosecute.”

20. On October 7, 2010, the Division received Applicant Countrymark’s reply to Gary Williams’ objections outlining the position of Applicant with respect to this matter.

21. “Waste” as that term is used under the Oil and Gas Act (IC 14-37) has specific meanings in the context of oil and gas conservation. The most applicable tenets of waste prevention relating to the drilling and completion of oil wells involve the importance of properly spacing wells with respect to property lines and from nearby wells, in addition to the importance of limiting the number of wells producing from within the same reservoir. Unless oil and gas ownership has already been sold or otherwise previously conveyed, each landowner has the right to drill for and produce oil and gas that may be present beneath their property. Oil and gas conservation law provides a balance between the rights of owners wishing to drill wells and the importance of protecting the resource from over-production or inefficient or “wasteful” practices. IC 14-37-11 specifically prohibits waste. 312 IAC 16-1-50 defines the term “waste” by identifying those actions or activities that would be considered as waste.

22. Based upon a review of the following:

(a) The prohibition of waste under IC 14-37-11;

(b) The definition of the term “waste” at 312 IAC 16-1-50; and

(c) Waste as that term is otherwise commonly understood in the context of oil and gas conservation;

the Director finds that the drilling of a horizontal well into the Cypress sandstone on the UNIT would not constitute “waste”. Support for this finding is based upon, but not necessarily limited to, the following:

- i. The drilling of horizontal oil wells has been found to be an effective method for increasing the volume of oil ultimately to be recovered from similar reservoirs in Indiana.
- ii. Oil present within the UNIT area can be drained from a single horizontal well. To drain this area otherwise could require the drilling of as many as eight (8) vertical wells on 10-acre drilling units.
- iii. The surface impacts of a single horizontal well are substantially less than the combined surface impacts of multiple vertical wells that would be required to drain the same area of land. The surface location for the well site would be located on less developed land outside the boundary of the Midway Acres Subdivision.
- iv. The drilling of multiple vertical wells within the Midway Acres Subdivision is unlikely to occur given the lot sizes and restrictions found in IC 32-23-7-6 which prohibit the locating of wells closer than 200 feet of an existing house, barn, or other structures without the express consent of the owner of the structures. A horizontal well drilled beneath the Midway Acres Subdivision is more likely to result in the increased recovery of oil that otherwise would be unrecoverable due to these difficulties in drilling vertical wells in this area.

23. Parties to this proceeding under IC 14-37-9 include the petitioner (Applicant Countrymark) and the owners of oil and gas associated with tracts of land within a drilling unit who have

not agreed to integrate their interests. In this case, these owners are:

- a) Gary and Elizabeth Williams; and
- b) Ralph and Joann Wheeler.

All other owners of oil and gas associated with tracts of land within the UNIT are not parties to this proceeding in that they have already agreed to integrate their oil and gas interests with the Applicant according to terms and conditions established in an oil and gas lease.

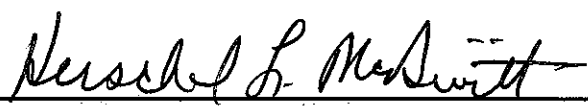
24. No responses were received by the Division from any of the mortgagee interests expressing the position that the mortgage interest owners should be considered as owners of oil and gas interests.
25. IC 32-23-7-4 specifies that an owner of a beneficial interest in the oil and gas estate in land "does not include a mortgagee or security assignee of the owner if the mortgagee or security assignee does not have a right to the control or operation of the premises for oil and gas".
26. Applicant Countrymark has not demonstrated that the owners of mortgage security interests are indeed owners of oil and gas interests on any of the parcels within the UNIT and the Director finds that there is no authority to integrate the mortgage security interests as required by IC 14-37-9-2.
27. Based upon a review of all relevant information, the Petition should be granted in order to allow the Applicant to proceed with the development of the aforementioned drilling unit in such a manner that affords the owners of oil and gas interests in all parcels within the UNIT an opportunity to receive a just and equitable share of the production of oil, natural gas, or other hydrocarbons from said UNIT.

CONCLUSIONS OF LAW AND ORDER OF INTEGRATION

1. IC 14-37-9 and any rules promulgated thereunder apply and are pertinent to the subject matter of the Application filed herein.
2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to order the integration of interests in accordance with IC 14-37-9-1(b).
4. The Petition, herein referenced, contains the elements required by law.
5. All leaseholds and parcels comprising the Gary and Elizabeth Williams property (Integration Tract A), and the Ralph J. and Joann T. Wheeler property (Integration Tract B) which are located in the West Half of the Northwest Quarter of Section 27, Township 6 South, Range 12 West in Posey County, Indiana are hereby ordered to be integrated into the UNIT as a single drilling unit. It is reasonable, fair, and equitable, as required by IC 14-37-9-2, that such integration of interests be accomplished so that unit operations may be conducted as if the UNIT area had been included in single leases executed by all owners of oil and gas interests within said UNIT.
6. Gary and Elizabeth Williams shall be entitled to receive a 1/8th royalty share of all oil, natural gas, and other hydrocarbons produced, and calculated at the decimal rate of 0.00131 of the total production from the UNIT.
7. Ralph J. and Joann T. Wheeler shall be entitled to receive a 1/8th royalty share of all oil,

natural gas, and other hydrocarbons produced, and calculated at the decimal rate of 0.00119 of the total production from the UNIT.

8. As provided in IC 14-37-9-2, the portion of the production allocated to the owner of any tract within the UNIT shall be considered as if produced from a well drilled on that tract.
9. Notwithstanding any contrary provisions contained in the Application, nothing in this Order of Integration shall be construed as granting the Applicant any legal right of entry onto, over, or across the surface of any portion of the Williams or Wheeler properties. However, Applicant shall be considered as being granted all other rights and privileges afforded to owners of oil and gas interests under Indiana law at IC 32-23-7-6.
10. This order is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7 and may be placed of record by the Applicant in the appropriate public record of Posey County, Indiana.

<u>October 28, 2010</u> Dated	 Herschel L. McDivitt, Director Indiana Division of Oil and Gas
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**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

**NOTICE OF ORDER OF INTEGRATION
NOTICE OF RIGHT TO APPEAL
CERTIFICATE OF MAILING**

You are hereby notified that on the date indicated below, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, issued an Order of Integration with respect to certain oil and gas drilling interests under Cause No. DOG-3-2010. The Order of Integration is based on an Application for Integration Order previously filed by the Applicant, Countrymark Energy Resources, LLC, and following an Informal Hearing held in this matter on August 10, 2010, in Evansville, Indiana to consider the request for integration. A copy of the Order of Integration issued on the date indicated below is enclosed.

The terms of the enclosed Order of Integration are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person must petition for review in writing stating facts that demonstrate the petitioner is:

- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.


In order to be timely, any petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, 100 North Senate Avenue, Room N501, Indianapolis, IN 46204-2200 within eighteen (18) days after the mailing date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the enclosed Order of Integration will become final and binding.

I further certify that a copy of the referenced Order of Integration was mailed on the date indicated below to the Applicant and to the following persons:

Gary Williams and Elizabeth Williams
4280 Pebble Lane
Mt. Vernon, IN 47620

Ralph J. Wheeler and Joann T. Wheeler
4315 Joyce Lane
Mt. Vernon, IN 47620-9624

October 28, 2010
Dated


Herschel L. McDivitt, Director
Indiana Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

**NOTICE OF ORDER OF INTEGRATION
NOTICE OF RIGHT TO APPEAL
SUPPLEMENTAL CERTIFICATE OF MAILING**

You are hereby notified that on the date indicated below, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, issued an Order of Integration with respect to certain oil and gas drilling interests under Cause No. DOG-3-2010. The Order of Integration is based on an Application for Integration Order previously filed by the Applicant, Countrymark Energy Resources, LLC, and following an Informal Hearing held in this matter on August 10, 2010, in Evansville, Indiana to consider the request for integration. A copy of the Order of Integration issued on the date indicated below is enclosed.

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I further certify that a copy of the referenced Order of Integration was mailed on the date indicated below to the following persons:

1. Bayview Loan Servicing, LLC, 425 Ponce De Leon Blvd, 4th Floor, Coral Gables, FL 33134
2. Old National Bank, 022 Mt. Vernon, P.O. Box 746, 402 Main Street, Mt. Vernon, IN 47620
3. Fifth Third Bank, P.O. Box 778, Evansville, IN 47705-0778
4. Old National Bank, 174 Commercial Lending Evansville, 1 Main Street, P.O. Box 1343, Evansville, IN 47705-9959
5. PGNF Home Lending Corp., 801 N. Cass Ave., Suite 300, Westmont, IL 60559
6. Wells Fargo Home Mortgage, MAC X3802-003A, 8480 Stage Coach Circle, Frederick, MD 2101
7. Mortgage Electronic Registration Systems, Inc., P.O. Box 2026, Flint, MI 48501-2026
8. Bank of New York, Trustee, C/O Phillip A. Norman, Phillip A. Norman PC, 2110 Calument Ave., Valparaiso, IN 46383
9. PGNF Home Lending Corp., 1431 Opus Place, Suite 200, Downers Grove, IL 60515
10. Countrywide Home Loans, Inc., MSN#SVB-314, 4500 Park Granada, CH 11, Calabasas,

CA 91302-1613

11. Countrywide Home Loans, Inc., MS SV-79, Document Processing, P.O. Box 10423, Van Nuys, CA 91410-0423
12. Fifth Third Bank, 111 Lyon N.W., Grand Rapids, MI 49503
13. Bayview Loan Servicing, LLC, 4425 Ponce De Leon Blvd, 5th Floor, Coral Gables, FL 33146
14. Countrywide Home Loans, Inc., 1396 N. Green River Road, Evansville, IN 47715
15. Brent S. Potter, Doyle Legal Corporation, First Indiana Plaza, Suite 2000, 135 N. Pennsylvania Street, Indianapolis, IN 46204
16. Evansville Commerce Bank, 20 NW 4th Street, Evansville, IN 47708
17. First Federal Savings Bank, 220 Federal Drive, Corydon, IN 47112
18. EverHome Mortgage Co., c/o Maria Henderson, Coordinator, Priority and Special Services, 8100 Nations Way, Jacksonville, FL 32256
19. AmTrust Bank, a Div., of NY Comm., 615 Merrick Ave., Westbury, NY 11590
20. First Federal Savings Bank, 5001 Davis Lant Drive, Evansville, IN 47706-1111
21. Legence Bank, 1010 Buena Vista Drive, Evansville, IN 47710
22. Chase Home Finance, Attn: Land Transaction, P.O. Box 9001871, Louisville, KY 40290-1871

<u>November 8, 2010</u> Dated	 Herschel L. McDivitt, Director Indiana Division of Oil and Gas
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The following is a summary of documents associated with this proceeding:

- Document 1. Cover Letter accompanying Applicant's Petition
- Document 2. Applicant's Petition with Attachments
- Document 3. Exhibit C to Applicant's Petition
- Document 4. Copy of Application for Well Permit #54151
- Document 5. Notice to Unleased Landowners
- Document 6. Notice to Mortgage Interest Owners
- Document 7. September 9, 2010, comments submitted by Gary Williams via email
- Document 8. October 7, 2010 response of Applicant to Gary Williams comments